



BANCORP

BANCORP TREASURY SERVICES LIMITED

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20 June 2003

Mr Greg Schollum
Chief Financial Officer
Wellington Regional Council
PO Box 1 I-646
WELLINGTON

Dear Greg

CREDIT DOWNGRADE OF THE NATIONAL BANK OF NEW ZEALAND LIMITED

You have asked Bancorp Treasury Services Limited ("BTSL") to confirm its comments on the announcement earlier this week by Standard and Poor's ("S&P") lowering its counterparty credit ratings on The National Bank of New Zealand Limited ("NBNZ"). NBNZ's long term rating has been downgraded to A + from AA- and its short term rating to A1 from A1 +.

The ratings downgrade "reflects a reduction in the level of implicit parental support that S&P includes in its assessment of NBNZ". S&P went on to comment that "although Lloyds TSB will continue to provide a liquidity facility and other tangible assistance to NBNZ during the strategic review". The credit rating agency now sees NBNZ as a non-strategic subsidiary under its group rating methodology. S&P also noted that, depending on the outcome of Lloyds TSB's strategic review, NBNZ's future ratings may be higher, lower or unchanged.

S&P's downgrade sees NBNZ fall below the minimum credit rating required for an approved counterparty as defined in Wellington Regional Council's ("WRC") treasury policy. A long term rating of A+ remains well within investment grade but falls into the "strong capacity to pay" category rather than "very strong capacity to pay". Given the magnitude of the downgrade, only one notch at this stage, and the substantial relationship between WRC and NBNZ, we do not recommend that WRC closes out any transactions with NBNZ. However, we suggest WRC contacts its relationship manager at NBNZ and advises of its concerns, and courses of action if there were any subsequent downgrade(s).

We also recommend that WRC's treasury policy, which is currently under review, be amended to allow WRC to deal with registered New Zealand banks whose S&P long term credit rating is A or higher. In doing so, WRC should also ask Council to approve the 'temporary' policy breach created by the downgrade providing a dispensation to maintain existing relationships with NBNZ, until the new policy parameters are ratified.

Please contact us if you have any further queries in this matter.

Yours sincerely

PETER G CAVANAUGH
Associate Director

EARL A WHITE
Director

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